



# United States Department of the Interior

OFFICE OF THE SECRETARY  
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## Memorandum

To: Bureau and Office Heads

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Subject: Implementing Activity Based Costing

On January 16, 2002, Deputy Secretary Steven J. Griles issued a memorandum outlining the direction for department-wide Activity Based Costing (ABC) implementation. Since then the Department and the Bureaus have initiated ABC/M pilots and have begun to see its potential for identifying where resources can be saved and where work processes can be streamlined.

These efforts resulted in the piloting and testing of several models for delivering ABC information. The ABC Steering Committee and I have also spent a good deal of time looking at issues related to individual bureaus. Now, to be successful, we must move forward and consolidate our pilot efforts into a single Departmental approach. This approach adheres to the ABC principles outlined in Deputy Secretary Griles' memorandum of January 16, 2002, as explained below:

*1. Ensure ABC cost information comes from the bureau's accounting records so that there is no debate about the source of underlying financial data.*

In this Department, ABC cost information must be directly traced from the activity to the transaction generating the cost. We can establish this link from the work activity to the transaction for all Departmental and bureau activities, with the exception of indirect activities (overhead). We will allocate indirect activity costs only when we cannot link indirect activities directly with the program/project that the indirect activity supports.

Throughout the Department, costs will be directly traced by coding an ABC activity code on every transaction, both labor and purchases, as the transaction is entered into each bureau's official accounting system. Indirect costs, both program and administrative, will be allocated to work activities in those instances where the indirect cost cannot be directly traced. This allocation will be uniform across all bureaus, and the Department will specify the indirect cost allocation methodology. Except for indirect costs, no costs will be allocated or assigned to either activities or to outputs.

As we have seen from the ABC/M systems implemented throughout the Department, there are vast conceptual differences in financial accounting and in managerial cost accounting methodologies like ABC and they serve different purposes and different customers. The Department plans to take advantage of ABC to accomplish a multiplicity of goals - improve accountability, redesign or improve work processes, define the business architecture, and integrate budget and performance - to name a few. To be successful in budget and performance

integration, for example, our costs need to reflect a considerable degree of precision to provide program leaders the information needed to assure fair and equitable program budget decisions.

*2. Ensure the classification of costs reflect the actual use of resources and not just the tracking of available budgetary resources.*

It is paramount that we work with employees to ensure that the classification of costs reflects the actual use of resources. In other words, employees must record work and outputs as actually performed, not as the work was planned or budgeted. This will result in additional work for our budget organizations initially, but will ultimately help us work with the Office of Management and Budget and the Congress to identify more precisely the resources needed for our work.

To accomplish this, beginning October 1, 2003, employees will no longer simply record the number of hours they spent on the job. Instead, every employee will record on their time and attendance form the time spent performing the activities defined across the Department as the actually do the work. This will ensure that we maintain an accurate record of work actually done. This methodology will eliminate the need and expense of using survey techniques, as is used in some ABC methodologies.

*3. Ensure the business processes subject to ABC are the important ones to measure from a bureau's perspective; ensure that the bureaus do not attempt to subject so many business processes to ABC that the process becomes unwieldy.*

We must carefully consider the work for which an understanding of cost is most important. Clearly there is a delicate balance between too much and too little cost information. The Department, in concert with the bureaus, is in the final stages of completing its work on identifying and defining the cross cutting ABC activity definitions, outputs, and output measures that all bureaus and offices will begin coding their time and purchases to beginning October 1, 2003. The ABC activity definition set will be forwarded to you for review over the next few weeks. We want to ensure that the ABC activity definition set truly represents the work the Department and bureaus do, and are the activities that are important to measure from both the bureau's and Department's perspective.

As we have experimented in the pilots, some bureaus have gone through the activity definition process individually and have developed a set of activities that they have used. Over the next month we will work with your staff to bring the activities defined by your bureau into the suite of activity definitions to be used across the Department. This effort will eliminate the need to map costs to the ABC activity definition set. In addition, we want to be in a position to identify the products or outputs of the work we do. We will work with your staffs to review your activities and describe the single output that results from the activity.

The specific set of activity codes to which we charge must be flexible to accommodate changing management needs. Therefore, we will have a process each year to refine our activity codes based on our experience in use of these codes. We know that management will want to make adjustments to activities for which costs are collected to best reflect program management needs.

The ABC and performance modules that the Department is now working to put in place are the first parts of Interior's Enterprise Management Information System. These modules will capture cost, workload, and performance information using the ABC activity definition set we are now refining with your staffs. The cost information will come directly from FFS and ABACIS

journals and form the basis of the Cost Management module; the workload and performance data will come from the Performance Module.

*4. Tie the Department's strategic plan outcomes to performance measures and the budget using ABC as a tool.*

During the ABC Activity Definition Workshops, the intermediate outcome strategy supported by each ABC work activity was identified, providing the link between work activity, intermediate strategy, and end outcome goal of the DOI GPRA Strategic Plan. We still have some remedial work to do where the teams did not settle on a one-to-one relationship between activity/output and intermediate strategy/end outcome.

This relationship between the activity and the output associated with an intermediate strategy/end outcome explains why we are doing work. As we have worked with your staffs, it is clear that other intermediate strategies/end outcomes may derive ancillary benefits from the activities performed, but we want to capture the primary relationship between intermediate strategy/end outcome and activity/output.

I hope that this memorandum clarifies the procedures we will follow to implement ABC fully across the Department. I appreciate the work you and your staffs have done and am excited about all the work that has been accomplished over the last several months.

In the months ahead we will (1) refine the ABC activity definition set using the experience of the pilots; (2) link the finance systems to the ABC activity definition set; and (3) develop the cost and performance modules of the Enterprise Management Information System to collect and report cost and performance information. My staff and I look forward to continue working with you on refining your ABC models to prepare for department-wide ABC implementation in FY2004.

cc: Bureau CFOs  
Performance Management Council  
Bureau Budget Officers  
ABC Steering Committee